The Internal Revenue Service Has Implemented a New Policy to Reduce Future Relocation Costs, But Improvements Are Needed in Its Cost Tracking Systems

September 2002

Reference Number: 2002-10-190

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

September 24, 2002

MEMORANDUM FOR CHIEF FINANCIAL OFFICER

FROM: Pamela J. Gardiner
Acting Inspector General

SUBJECT: Final Audit Report - The Internal Revenue Service Has Implemented a New Policy to Reduce Future Relocation Costs, But Improvements Are Needed in Its Cost Tracking Systems (Audit # 200210018)

This report presents the results of our review of the Internal Revenue Service's (IRS) Employee Relocation Program. We conducted this review to address questions raised by Senator Charles Grassley, Ranking Member of the Senate Finance Committee, and the Director of the Office of Management and Budget concerning relocation costs at the IRS. The overall objective of this review was to determine if the IRS relocation program is in compliance with existing regulations and is comparable to other agencies' relocation programs.

In summary, we found that the IRS has implemented a new policy to help reduce relocation costs in the future. This policy should help reduce costs, especially those associated with the use of relocation service companies for the sale of employees' real estate. In addition, for the sample of employee relocation case files that we reviewed, relocation expenses claimed by employees were valid and conformed to guidelines. However, because of limitations in its cost tracking systems, the IRS cannot readily determine the number of actual employee relocations, the total cost, or the reasons for the relocations.

<u>Management's Response</u>: IRS management agreed with the report's recommendation; however, because it is implementing a new accounting system, the Integrated Financial System , it will implement the corrective action on its new system and ensure it has the capability to produce desired data in standard report format.

Management's complete response to the draft report is included as Appendix V.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendation. Please contact me at (202) 622-6510 if you have questions or Daniel R. Devlin, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

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Background

Recent press coverage and Congressional inquiries have raised questions about the Internal Revenue Service's (IRS) employee relocation program. Questions about the rationale for some of the moves and the reasonableness of the expenses incurred have appeared in the news media and in a letter from Senator Charles Grassley, Ranking Member of the Senate Finance Committee, to the Office of Management and Budget (OMB) Director. To address these concerns, we conducted this review of the IRS' relocation program. The overall objective of this review was to determine if the IRS' relocation program was in compliance with Federal regulations.

We reviewed relocations that occurred in Fiscal Years (FY) 1998 to 2001 and conducted our work at the IRS' Headquarters Office in Washington, DC, and at the Beckley Finance Center in Beckley, WV. We performed our audit work from January through July of 2002. The audit was conducted in accordance with *Government Auditing Standards*. Detailed information of our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

Comparison of Relocation Costs

An Employee Relocation Council survey published last year summarized relocation costs incurred by private sector companies.[1] This survey of 237 current employees and 129 new hires showed that homeowners comprised 56 percent of the relocations. American companies paid an average of $57,279 (current employees) and $45,948 (new hire employees) to relocate a home owning employee. The average cost of relocating a non-home owning employee was $16,701 for current employees and $13,456 for new hires.

Data provided by the Department of the Treasury for its bureaus/offices showed a similar range of relocation costs but was not broken down between home owning and non-home owning employees. Average relocation cost by bureaus/offices ranged between $19,837 and $60,375. See

[1] This survey is included in the July 2001 issue of *Mobility* magazine.

the following table for a comparison of Treasury agencies and bureaus. Data provided by the IRS is roughly comparable; however, there are factors which affect the accuracy of the IRS data as discussed later on pages 8 and 9.

Treasury Relocation Data (FY 1999-2001)

Bureau/Office	Total Relocation Expenses	Percent of Total Budget	Employees Relocated	Percent of Employees Relocated	Average Relocation Cost
Alcohol, Tobacco, and Firearms	$40,330,637	2.08%	668	5.07%	$60,375
Internal Revenue Service*	$53,680,382	0.22%	1,543	0.45%	$36,067
Engraving and Printing	$102,425	0.01%	3	0.04%	$34,142
Secret Service	$46,530,525	2.06%	1,418	9.01%	$32,814
Customs Service	$47,200,000	0.75%	1,572	2.68%	$30,025
United States Mint	$831,384	0.02%	38	0.49%	$21,879
Office of the Comptroller of the Currency	$14,359,402	1.17%	704	8.09%	$20,397
Financial Management Services	$416,571	0.06%	21	0.35%	$19,837

Sources: United States Treasury Department
**Internal Revenue Service*

Process for Paying Relocation Expenses

The Federal Travel Regulations (FTR) address relocation expenses for which the federal government can pay directly or reimburse employees. The FTR is the regulation contained in Title 41, Code of Federal Regulations (CFR), which implements statutory requirements and Executive Branch policies for travel by Federal civilian employees and others authorized to travel at the Government's expense.

The IRS' relocation process involves the four offices shown in the following table.

Offices Involved in the Relocation Process

Office:	Role:
"gaining office"	The office hiring the employee. It authorizes and pays for the relocation.
Travel Relocation Office (Agency-Wide Shared Services [AWSS])	Helps employees prepare the relocation documents.
Office of Travel Management and Relocation (Chief Financial Officer [CFO])	Issues relocation policies and administers the relocation services contract.
Relocation and Travel Office at the Beckley Finance Center	Obligates funds and records the related relocation expenses into the Program for Relocation Information and Moving Expense (PRIME) system, which updates the Automated Financial System (AFS). Audits vouchers, determines any debts and establishes for collection as needed.

Source: Internal Revenue Manual

When the IRS decides to relocate an employee, the employee signs a Form 4282 (12-Month Service Agreement) and then, with the assistance of a relocation coordinator, estimates the total cost of the relocation on the Form 4253 (Authorization for Moving Expenses). This is reviewed by an approving official and then is sent to the Beckley Finance Center where they set aside (obligate) funds on the Automated Financial System (AFS) to pay for the relocation. As employees incur relocation expenses, they submit the amounts for reimbursement on an expense voucher. After approval, the voucher along with the expenses directly invoiced to the government, are sent to the Beckley Finance Center for input into the Program for Relocation Information and Moving Expense (PRIME) system and AFS. Relocating employees typically have 2 years from the effective date of the employee's transfer to incur relocation expenses.

While the FTR lists authorized expenses, it has few monetary limitations (See Appendix IV). There is no standard relocation cost or established average cost. Each relocation is unique in that a number of factors affect the eventual total cost of the relocation. Factors such as the distance from the old office to the new, the number of dependents moving with the employee, and whether the employee rents or owns a home all impact the total cost of the relocation. Additionally, employees are sometimes allowed a house-hunting trip and may incur lodging costs for temporary quarters at the old and new duty station.

Usually, real estate expenses are the largest portion of the expenses incurred by, and reimbursed to, relocating employees. There are three types of real estate expenses:

- Costs incurred if the employee sells his/her home. The amount reimbursed is limited to 10 percent of the sales price.
- Costs incurred if the employee purchases a residence at the new location. The amount reimbursed is limited to 5 percent of the purchase price.
- Costs incurred if the employee uses the relocation services contract. The fee is a percentage of the appraised value of the employee's home and depends on the type of service provided by the relocation company. The highest fee is when the relocation company purchases the home from the employee for the appraised value.

The Internal Revenue Service Has Implemented a New Policy to Reduce Future Relocation Expenses

The prior relocation guidelines in the Internal Revenue Manual conformed to the Federal Travel Regulations (FTR). However, there are certain optional provisions in the FTR that are used by other agencies to reduce relocation costs associated with real estate transactions that were not used by the IRS.[2] Agencies have the option to use any or all of the following:

- A policy requiring employees to market their home for a set period of time before accepting the guaranteed offer from the relocation services company (guaranteed home sale program).
- A policy capping the value of a home that can be sold under the guaranteed home sale program.
- A policy allowing agencies to offer an incentive payment to relocating employees.

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[2] Agencies that we contacted that used one or more of these provisions included the Department of Defense, the Department of Transportation, the Bureau of Alcohol, Tobacco, and Firearms, and the Federal Deposit Insurance Corporation.

Because of the concerns expressed by the media and members of the Congress over the high cost of relocating certain IRS employees, many of whom used the relocation services contract, the IRS developed a new policy that addressed this and other expenses in an effort to control relocation costs. The revised policy (issued July 25, 2002) incorporates the first two of the three policies noted above. Overall, the IRS' new policy should help it better control relocation costs by limiting the use of the relocation services contract and limiting the amount spent on employees using the contract. The IRS paid $7.8 million to a relocation services company for services invoiced during FY 2001. The cost per individual to use the relocation services contract in some cases was very high; the highest in our case review occurred in FY 2000 and was approximately $160,000.

With its new policy, the IRS has created two relocation packages, a basic package and a basic plus package. The basic package includes allowances for most of the costs associated with relocation, but does not allow reimbursement for the use of the relocation services contract, the shipment of employee's privately owned vehicle, or the use of temporary quarters for more than 60 days. The basic plus package allows for the use of the relocation services contract, an extension of temporary quarters, and the shipment of a vehicle. Employees will be required to provide an adequate written justification to use the basic plus package. Only the Deputy Commissioner may authorize an employee to use the items under the basic plus package.

The new policy requires employees that have been authorized to use the relocation services contract to first market their home on their own. The number of days employees are required to market their home depends on the number of days they have to report to their new location. For example, an employee required to report to the new location within 30 days must market his/her home for at least 15 days. An employee required to report in 90 days must market the home for 75 days. This increases the possibility that the employee will find a buyer for the home and avoid the high fees charged by a relocation company to purchase the home under the guaranteed home sale program.

The new policy also limits the value of a home for which IRS will pay the costs of the guaranteed home sale program. The IRS set this value at $500,000. The employee must pay the fee related to the value of their home that is over that amount. For example, if an employee's home is valued at $575,000, the IRS will pay the fee allocated to the $500,000 limit (this would be $98,700 under the current contract) and the employee must pay the fee allocated to the $75,000 difference ($14,805 under the current contract). If this provision had been in effect during FY 2001, the IRS would have saved approximately $66,000.

The FTR also permits the offer of an incentive payment to employees if they find a buyer for their home on their own after contracting with a relocation services company. The relocation company that the IRS uses charges a fee of 19.74 percent under the guaranteed home sale program and only 11.44 percent of the sales price when the employee finds a buyer. With the home marketing incentive payment, an agency shares the cost savings with the employee. The payment to the employee is a percentage of the sales price of the home, usually between 1 and 5 percent. Three of the government agencies we contacted offered a home marketing incentive payment. The IRS has indicated that it may implement this in the future if it determines such a policy could further reduce relocation costs.

Relocation Expenses Claimed By Employees Were Valid and Conformed to Guidelines

To address concerns that were raised as to whether or not relocation expenses claimed by IRS employees were valid and proper, we reviewed a sample of 77 relocation case files from the time period of FY 1998 to FY 2001. Our sample was selected from the following categories:

Category	Number of Files	Selection Method
Critical Pay employees[3]	21 case files	All files meeting this criteria
Employees transferred 3 times in a 4 year period	21 case files (7 employees)	All files meeting this criteria
Transfers of mid and upper level managers	35 case files	Judgmental Sample

All of the 77 relocation cases that we reviewed complied with the requirements in the FTR and the IRM.

- The Forms 4253 (Authorization for Moving Expenses) were properly authorized.
- Estimates were appropriately based on IRM guidelines.
- Expenses were within established guidelines.
- A 12-month Service Agreement was signed by the employees and they honored the agreement by staying in the position 12 months or more.
- All employees claiming relocation expenses moved from another metropolitan area.
- The reasons for the relocations were promotions or reassignments.

To address concerns about whether employees improperly used government travel funds to make return visits to their original locations, we also reviewed the travel vouchers of the employees for the 6-month period following their relocation. From the sample of 56 employees (77 case files)

[3] Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 98), Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.) authorized the use of “critical pay positions.” These positions are term appointments at higher pay levels than normally authorized. All of these appointments are people who previously did not work for the IRS and most involved the need for the person to relocate to accept the position.

that we reviewed, 18 employees traveled to their previous location on government business. In 16 instances, the return trip appeared reasonable based on the business purpose and the time period for the trip. There were two instances in which the return trip was near a holiday and travel expenses were incurred over the holiday weekend. These two cases were referred to the IRS Deputy Commissioner for review.

The Internal Revenue Service's Systems Do Not Adequately Track Relocation Costs

The main sources for relocation data at the IRS are the PRIME and AFS. The two systems provide the amount of funds set aside for the relocation as well as the expenses to date. The PRIME also provides additional information from the moving authorization (Form 4253) and the expense vouchers. However, there is certain data that neither system provides that makes it difficult to track and manage the relocation budget. The current systems do not identify:

- If a relocation has been cancelled.
- If a relocation has been finalized with all expenses submitted.
- The reason for each relocation.

In certain instances, relocations have been cancelled after the funds were obligated and certain expenses paid. However neither system is updated to reflect such cancellations. This reduces the reliability of information on the number of employees relocated as well as the average cost of the relocations.

In addition, the expenses reported for recent years may not represent the total cost of the relocations because employees have up to 6 years to file relocation vouchers.[4] There is no indication on the IRS systems as to whether all vouchers have been filed and the total relocation expenses have been

[4] Although employees have 2 years to incur expenses related to relocation, the 6 year period to file vouchers allows the time needed related to the relocation income tax allowance, which can only be determined after employees have determined the actual tax due on their relocation reimbursement and filed the related tax returns. The tax allowance is a significant portion of the relocation expenses, normally between 20 to 30 percent of the overall relocation cost depending on the employees' tax bracket.

finalized. Without this information, the total expenses reported for relocations in a specific year can be misleading.

The systems also do not contain information as to the reasons for the relocations. Certain events can cause a sudden increase in the relocation costs. For example, the IRS cannot determine which relocations were due to its current modernization efforts or its recent reorganization, and which are due to its normal hiring practices. This information is important for the IRS to manage its relocation funds and formulate future relocation budgets.

Recommendation

1. We recommend that the CFO reprogram either the PRIME or AFS to enable it to identify:
    - If a relocation has been cancelled.
    - If a relocation has been finalized with all expenses submitted.
    - The reason for each relocation.

Management's Response: The IRS responded that it will implement the corrective action on its new accounting system, the Integrated Financial System (IFS), which will replace the existing systems in October 2003. It will ensure that the IFS will produce the desired data in a standard report format.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to determine if the Internal Revenue Service's (IRS) relocation program was in compliance with existing regulations and is comparable to other agencies' relocation programs.

We received relocation data from the IRS, and the bureaus within the Department of the Treasury. We performed tests to validate the accuracy of certain IRS data from the records we reviewed. We did not perform tests as to the validity or completeness of the data from other Treasury Department bureaus. We reviewed the relocation files for all 21 critical pay employees. In addition, we selected a judgmental sample of relocation files from 35 of the 382 mid and upper level managers (Grade 15 and above) that were relocated. We also reviewed 21 case files which included all 7 employees for whom the IRS obligated relocation funds 3 times within 4 years (Fiscal Years [FY] 1998 – 2001).

In order to accomplish our objective, we:

I. Determined whether the relocation expenses for the critical pay employees who participated in the relocation program were within IRS guidelines.

II. Analyzed the IRS relocation moves from FY 1998 to FY 2001.

III. Evaluated the IRS relocation regulations for conformance to the Code of Federal Regulations.

IV. Determined whether the IRS relocation program was comparable to the programs offered by the Department of Defense; Department of Transportation; Alcohol, Tobacco, and Fire Arms; and Federal Deposit Insurance Corporation.

Appendix II

Major Contributors to This Report

Daniel R. Devlin, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs)
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Appendix III

Report Distribution List

Commissioner N:C
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Chief, Agency-Wide Shared Services A
Director, Customer Support A:CS
Director, Beckley Finance Center N:CFO:A:BFC
Director, Office of Travel Management and Relocation N:CFO:A:T
Chief Counsel CC
National Taxpayer Advocate TA
Director, Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O
Office of Management Controls N:CFO:F:M
Audit Liaisons
    Chief, Agency-Wide Shared Services A
    Chief Financial Officer N:CFO

Appendix IV

Major Relocation Costs and Limitations

Type of Expense	Limitations per the Federal Travel Regulations
Transportation expense to the new post of duty.	The cost is limited to the cost of a common carrier, local transportation, and mileage if employees use their personally owned vehicle.
Transportation of the employee's household goods.	There are no dollar limitations, just a limitation of 18,000 pounds that can be moved.
Temporary Quarters at the new post of duty.	There are no dollar limitations. Use of temporary quarters is limited to 60 days with an additional 60 days permitted when approved.
House hunting expenses.	There are no dollar limitations. The expenses are limited to the cost of a common carrier, 10 days per diem, and local transportation.
Real Estate Transactions.	There are no dollar limits on the expenses related to the sale or purchase of a home including the use of a relocation services contract. The relocation service company's fee is a percentage of the appraised value of the home.
Miscellaneous Expenses.	Employees are limited to $350 without family or $700 with immediate family.[1]

Source: Title 41, Code of Federal Regulations.

[1] The dollar limitations for miscellaneous expenses were raised to $500 without family and $1,000 with family as of February 19, 2002.

Appendix V

Management's Response to the Draft Report

CHIEF FINANCIAL OFFICER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

RECEIVED
SEP 17 2002

September 17, 2002

MEMORANDUM FOR PAMELA J. GARDINER
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: W. Todd Grams
Chief Financial Officer

SUBJECT: Draft Audit Report # 2002-10-018, "The IRS Has Implemented a New Policy to Reduce Future Relocation Costs, But Improvements are Needed in Its Cost Tracking Systems"

We have viewed your draft audit report on our relocation program and we are please to see that the report recognizes our efforts to reduce relocations costs. Our response to your draft follows.

RECOMMENDATION: We recommend that the CFO reprogram either the Program for Relocation Information and Moving Expenses (PRIME) or Automated Financial System (AFS) to enable it to identify:

- If a relocation has been cancelled
- If a relocation has been finalized with all expenses submitted
- The reason for each relocation

RESPONSE: Under the current environment, both AFS and PRIME (now called Relocation Accounting Payment System - RAPS) can identify canceled relocations, final relocation expenses, and reasons for each relocation. However, neither system provides this data in standard format and therefore no reports can be generated. Both AFS and RAPS will be replaced with an Integrated Financial System (IFS) in October 2003. In order for the IRS to implement this recommendation, we would have to make major and costly modifications to AFS and RAPS. Because of the IFS initiative, IRS is being extremely judicious in making modifications to our current systems. The Chief Financial Officer will ensure that IFS provides the desired data in standard report format.

If you have any questions, please contact me at 202.622.6400, or have a member of your staff contact Angela Cook, Chief, Office of Travel Management and Relocation at 301.492.5606.